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REVIEW & OUTLOOK

The Issue in Poland

Yesterday our Seth Lipsky disclosed documents showing that in the wake of the Polish crackdown, the State Department's first instinct was to urge the banks to go easy in their negotiations on debt rescheduling. While State's economic wizards later thought better of such lunacy, it remains clear that no one in charge has picked up a clue that in Poland the debts are the issue.

We do not mean to denigrate the human rights implications of the Polish tragedy, nor the political lesson of yet another demonstration of the inability of communism to either tolerate or totally suppress freedom and diversity. But from the standpoint of U.S. national interests, the Polish economic crisis and its impact on Western debts has an even more portentous aspect. It is the first eruption of an issue transcending Poland and going to the heart of Soviet-American relations. To put the issue in its most dramatic form, it is this: Are we going to continue to allow and even encourage Western banks to finance the Soviet military machine?

How does this come about? For starters, it is useful to think of Poland the way Leonid Brezhnev thinks of Po-

goods, the satellites were encouraged to borrow heavily in the West to buy machinery, raw materials and semi-finished manufactures. Western bankers and businessmen were thrilled with the new "vitality" in the East, an illusion that caused them to allow the hard currency debts of the East Europeans to rise out of all proportion to their ability to repay (see tables).

In simplest terms, the Soviet Union exploited its Comecon partners as a conduit to obtain Western goods on the cuff. As the Wharton tables show, Soviet hard currency debt has itself expanded sharply and is expected to rise further in the years ahead, but it is not yet nearly as far out of line with any prudent measure of repayment ability as the debts of Poland, Hungary and East Germany. The Russians got the TV sets and Wartburgs and the Poles, East Germans and Hungarians received the bills.

The Soviets got by with this by literally holding guns to the heads of satellite party leaders; Soviet troops and tanks ring Prague and Budapest, heavily occupy East Germany and surround Poland. What the Russians didn't foresee was that East European workers, first of all the Poles, would grow tired of having the fruits of their labors purloined. Without doubt, the absence of goods to buy with zlotys contributed to the Polish uprising.

The Soviet exploitation of Western credit markets and East European workers has had the primary purpose of enabling the Soviets to build and maintain a vast military establishment. The primary role of that establishment is to intimidate the Western European suppliers of goods and credit and absolutely control the Eastern European suppliers of labor. To this end the Soviets spend some 15% of their total GNP for military purposes, more than twice the percentage for the U.S. They have some 3.7 million troops in uniform, 3,300 combat aircraft, 55,000 tanks and a grand array of other lethal equipment. The officers of this force are part of the So-

viet elite, highly pampered in a society where ordinary people suffer severe deprivation.

In short, the economies of Eastern Europe are organized to support the economy of the Soviet Union, and the economy of the Soviet Union is organized to support its military machine. Into this process the Western banks have pumped some \$60 billion in the last decade. If the forecasts by Wharton Econometrics prove true, they will pump almost this amount again into the same process over the years of the Reagan administration.

Indeed, with the breakdown of the Comecon credit pipeline and another big failure down on the collective farms, the Soviet Union has had to go directly to the West for money. The Bank for International Settlements estimates that the Soviets borrowed over \$15 billion in hard currency last year. Reports from Europe yesterday suggest this borrowing is continuing (see page 2 of the Journal). And Soviet gold sales in the West more than tripled to 250 metric tons in 1981, according to London market estimates.

Despite all these circumstances, Western politicians are in their usual dither, insisting that there is nothing much they can do about the Russians' ham-fisted crackdown on the Polish workers. Quite clearly there is a great deal to do, and it is in the interest of the West to do it.

Ironically, the simplest thing the U.S. government could do would be to ask the banks to face the real risks of these loans. A significant, modest and entirely justified step would be for the Comptroller of the Currency to suggest banks take a 50% write-down on loans to Poland, and perhaps Hungary and East Germany. Bank regulatory officials in other Western countries could be encouraged to take parallel action. This would immediately raise the cost of credit to the whole Soviet bloc.

Soviet Bloc Debt
(Net hard-currency debt to the West
in billion current U.S. dollars)

	1970	1980	1985-f
Bulgaria	0.7	2.7	4-5
Czechoslovakia	0.6	3.4	5-6
East Germany	1.4	11.8	18-20
Hungary	0.6	7.0	10-11
Poland	1.1	21.9	31-35
Romania	1.6	9.0	19-21
USSR	1.0	9.6	30-35
Comecon Banks	0.3	4.1	6-7
Soviet Bloc Total	7.3	69.5	123-140

Source: Wharton Econometric Forecasting Associates.
f-Wharton forecast.

land—and indeed all other members of Comecon—as a Soviet vassal state. As Mr. Nagorski reveals elsewhere on this page today, the Soviet Union in 1976 created a "transferrable ruble" to, in effect, obtain a highly favorable exchange rate from its Comecon partners and thus buy manufactured goods cheaply. To provide these

ARTICLE APPEARED
ON PAGE 2

CHICAGO TRIBUNE
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Top court overturns 'arbitrary' death sentence

By Glen Elsasser

Chicago Tribune Press Service

WASHINGTON—The United States Supreme Court on Monday reversed the death sentence of a Georgia man because the jury arbitrarily decided the murders of his wife and mother-in-law were "outrageously vile, horrible, and inhuman."

NIXON WIRETAP SUITS

THE HIGH court also announced Monday it would decide whether Morton Halperin, a former staff member of the National Security Council under Henry Kissinger, can sue former officials in the administration of President Richard Nixon for wiretapping his home phone in 1969.

At issue in the case is whether the president and his closest advisers may be held liable for constitutional violations that occur in the president's performance of his official duties.

The Nixon administration had initiated the surveillance because of foreign policy leaks to the news media.

Also Monday the high court denied an appeal by William Kampiles, former CIA clerk here convicted by a Hammond, Ind., jury in 1977 of selling a top secret document to a Soviet agent. Kampiles was sentenced to 40 years in prison.

EXCERPTED

The credit-worthiness of the Soviet Union itself is endangered by the Comecon debts, for its own economy is dependent on theirs in many ways. If it undertakes to provide the umbrella the banks have hoped for, its own resources will be stretched. Wharton Econometrics has not calculated a debt service ratio for the bloc as a whole; an analyst there captures the attitude of the banks by saying they would find such a figure "meaningless." But the OECD, which uses a more stringent debt-ratio calculation, puts the bloc at 0.4, including the Soviet Union. Some umbrella.

Beyond that, there is the definite risk that over the next few years the Soviet workforce itself will go Polish. The Soviet Union's resources are becoming ever more strained. Its inefficient use of manpower, a product of central planning and regimentation, coupled with a low birth rate, has severely stretched the manpower supply. Productivity and morale are low, owing in part to the fact that Soviet workers fare no better than the Poles

Debt Service Ratios
(0.2 or higher regarded as a danger signal in international lending)

	1970	1975	1981-f
Bulgaria	0.30	0.44	0.29
Czechoslovakia	0.09	0.11	0.25
East Germany	0.14	0.26	0.43
Hungary	0.16	0.24	0.57
Poland	0.19	0.32	0.87
Romania	0.36	0.21	0.32
USSR	0.07	0.13	0.07

Source: Wharton Econometric Forecasting Associates.

Debt Service ratio is the ratio of debt service (interest plus repayments) to sum of hard currency export balance and net balance in invisibles.
f-Wharton Forecast.

at the hands of the Communist elite. Alcoholism is epidemic. The Red Army's inability to subdue Afghanistan is requiring larger infusions of troops.

In this lies the West's great foreign policy opportunity. The future of the Soviet economic system depends on access to the Western banking system. Instead of encouraging the banks to roll over debt in the wake of Poland, the government ought to be making clear that this access depends on a modicum of Soviet good behavior. By any realistic risk assessment, indeed, it is military spending and repression of Eastern Europe that call its credit standing into doubt. To price the Soviets out of the credit markets, what the government chiefly has to do is bring the lenders face to face with economic reality.

LONDON DAILY TELEGRAPH
3 May 1980

CONDUCT CODE FOR CIA

By A. J. McILROY
in Washington

ATTEMPTS by Congress to apply legal restraints on America's intelligence agencies and their undercover operations have collapsed, giving way to a considerably watered down "code of conduct".

Months of congressional hearings ended with the shelving of a proposed charter that would have forced the Central Intelligence Agency and others to give the Senate advanced notice of undercover operations.

Instead, the agencies are requested to give advance notice of such operations but have a loophole in the provision that they need not do so if it jeopardises such operations or its operatives.

The CIA is still uneasy about this clause, but along with the national security agency and the Federal Bureau of Investigation heaved a sigh of relief yesterday that the restraints proposed in the charter have been put aside.

The clamour to control the activities of the intelligence agencies stemmed from embarrassing disclosures in the mid 1970s of abuses, including assassination plans aimed at a number of foreign leaders, spying on domestic political groups and Americans abroad, experiments in mind-altering drugs, and a role in the overthrow of the government of Chile.

It was understood last night that the crisis in Afghanistan and Iran swayed members of Congress. Intelligence agency leaders had warned that restraints, particularly the advance notice clause, would mean more hostages taken and more Americans killed and injured in terrorists attacks.

Last year 12 Americans died in terrorist attacks, the largest number in a decade.

The intelligence agencies are currently operating under executive orders drafted following the disclosure of widespread abuses. These executive orders are described by the agencies as "burdensome."